

Internal Revenue Service

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Date 5-25-95 5/31/95

Surname [REDACTED]

Department of the Treasury

Washington, DC 20224

Person to Contact: [REDACTED]

Telephone Number: [REDACTED]

Refer Reply to: [REDACTED]

Date: MAR 27 1995

Employer Identification Number: [REDACTED]

Key District: [REDACTED]

Dear Applicant:

We have considered your application for exemption from Federal income tax under section 501(c)(3) of the Internal Revenue Code.

The information submitted indicates that you were incorporated on [REDACTED]. Your purposes as stated in your articles of incorporation are exclusively charitable and educational.

In your application for exemption, you state that your specific purposes are to expand global linkages through aiding in the implementation of publicly and privately sponsored international education and exchange programs.

You state that your activities in furtherance of the above purposes will be to contract with larger non-profit organizations seeking experienced international exchange professionals to aid in proposal preparation and project delivery for [REDACTED] and other publicly sponsored projects. You state that you qualify as a small business under [REDACTED] criteria, and as such also seek to gain mandated subcontracting work from [REDACTED] supported exchange and training programs. You indicate that after you establish yourself and your reputation, it is your intent to bid on and deliver such programs under your own initiative and to offer your services to private sector concerns interested in a variety of training programs.

You indicate that you not only rely on the expertise of your directors to deliver programs on a contractual basis, but also will draw on an established data base of exchange and educational professionals to carry out your activities on a contractual case-by-case basis.

Your anticipated sources of support will be from fees

charged to other organizations for services delivered, government supported exchange and training programs, and from private donations.

Section 501(c)(3) of the Code provides for the exemption from Federal income tax of organizations organized and operated exclusively for charitable or educational purposes.

Section 1.501(c)(3)-1(a) of the Income Tax Regulations provides that in order to be exempt as an organization described in section 501(c)(3), the organization must be one that is both organized and operated exclusively for one or more of the purposes specified in that section. An organization that fails to meet either the organizational or the operational test is not exempt.

Rev. Rul. 72-369, 1972-2 C.B. 245, holds that an organization formed to provide managerial and consulting services at cost to unrelated exempt organizations does not qualify for exemption under section 501(c)(3) of the Code. This revenue ruling points out that an organization is not exempt merely because its operations are not conducted for the purpose of producing a profit. To satisfy the "operational test" the organization's resources must be devoted to purposes that qualify as exclusively charitable within the meaning of section 501(c)(3) and the applicable regulations.

Rev. Rul. 69-528, 1969-2 C.B. 127, holds that an organization regularly carrying on an investment service business that would be unrelated trade or business if carried on by any of the exempt organizations on whose behalf it operates, is not exempt under section 501(c)(3) of the Code. This Rev. Rul. points out that providing investment services on a regular basis for a fee is a trade or business ordinarily carried on for profit. If the services were regularly provided by one tax-exempt organization for other tax-exempt organizations, such activity would constitute unrelated trade or business.

Rev. Rul. 71-529, 1971-2 C.B. 234, holds that a nonprofit organization that provides assistance in the management of participating colleges' and universities' endowment or investment funds for a charge substantially below cost qualifies for exemption under section 501(c)(3) of the Code. Revenue Ruling 69-528 was distinguished because in that revenue ruling the facts indicated the organization was primarily engaged in carrying on an investment management business for charitable organizations on a fee basis free from control of the participants.

B.S.W. Group, Inc. v. Commissioner, 70 T.C. 352 (1978), describes an organization which provided management consulting services for a fee to nonprofit organizations, some of which were

exempt and some of which were not. The nonprofit organizations engaged in various rural-related activities designed to improve health, housing, and vocational skills. The Tax Court upheld the Service's determination that the organization did not qualify for exemption under section 501(c)(3) of the Code. The Court held that the organization's activities constituted the conduct of a consulting business of the sort which is ordinarily carried on by commercial ventures organized for profit.

The information submitted indicates that your primary activity will be providing educational and exchange programs for non-profit organizations and others in the private sector who are interested in such programs. Providing such services on a regular basis for a fee is a trade or business ordinarily carried on for profit. The fact that these services will be provided to nonprofit organizations to assist them in carrying out their educational or charitable purposes is not sufficient to characterize such services as educational or charitable within the meaning of section 501(c)(3) of the Code. Accordingly, it is our conclusion that you will not be "operated exclusively" for an exempt purpose specified in section 501(c)(3) of the Code, and you are not entitled to exemption from Federal income tax under that section of the Code. Therefore, you are required to file Federal income tax returns. Contributions to you are not deductible under section 170 of the Code.


You have the right to protest this ruling if you believe that it is incorrect. To protest, you should submit a statement of your views, with a full explanation of your reasoning. This statement must be submitted within 30 days of the date of this letter and must be signed by one of your officers. You also have a right to a conference in this office after your statement is submitted. If you want a conference, you must request it when you file your protest statement. If you are to be represented by someone who is not one of your officers, he/she must file a proper power of attorney and otherwise qualify under our Conference and Practice Requirements.

If you do not protest this proposed ruling in a timely manner, it will be considered by the Internal Revenue Service as a failure to exhaust available administrative remedies. Section 7428(b)(2) of the Code provides, in part, that a declaratory judgment or decree under this section shall not be issued in any proceeding unless the United States Tax Court, the United States Court of Federal Claims, or the District Court of the United States for the District of Columbia determines that the organization involved has exhausted administrative remedies available to it within the Internal Revenue Service.

If we do not hear from you within 30 days, this ruling will become final and copies will be forwarded to your key District.

Director. Thereafter, if you have any questions about your federal income tax status, including questions concerning reporting requirements, please contact your key District Director.

Sincerely,


Chief, Exempt Organizations
Technical Branch 1

cc:



